

CITY OF READING, MICHIGAN
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
YEAR ENDED JUNE 30, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Reading, Michigan	County Hillsdale
Audit Date 6/30/05	Opinion Date 7/29/05	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Osbourne, March, Condon & Co., P.C.			
Street Address 184 W. Carleton Road	City Hillsdale	State MI	ZIP 49242
Accountant Signature <i>Stephen W. Barker, CPA</i>		Date	

CITY OF READING, MICHIGAN

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	i – ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii - ix
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS:	
STATEMENT OF NET ASSETS	1
STATEMENT OF ACTIVITIES	2
FUND FINANCIAL STATEMENTS:	
GOVERNMENTAL FUNDS:	
BALANCE SHEET	3
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET WITH THE STATEMENT OF NET ASSETS	4
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	5
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	6
PROPRIETARY FUNDS:	
STATEMENT OF NET ASSETS	7
RECONCILIATION OF ENTERPRISE FUNDS BALANCE SHEET WITH THE STATEMENT OF NET ASSETS	8
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS	9
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS TO THE STATEMENT OF ACTIVITIES	10
STATEMENT OF CASH FLOWS	11
FIDUCIARY FUNDS:	
STATEMENT OF NET ASSETS	12
STATEMENT OF CHANGES IN NET ASSETS	13
NOTES TO FINANCIAL STATEMENTS	14 – 30
REQUIRED SUPPLEMENTAL INFORMATION	
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND	31
BUDGETARY COMPARISON SCHEDULE – MAJOR SPECIAL REVENUE FUND – MAJOR STREET	32
BUDGETARY COMPARISON SCHEDULE – MAJOR SPECIAL REVENUE FUND – LOCAL STREET	33
RETIREMENT SYSTEM REQUIRED SUPPLEMENTARY INFORMATION:	
ANALYSIS OF FUNDING PROGRESS – MICHIGAN MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM	34

CITY OF READING, MICHIGAN
TABLE OF CONTENTS (CONCLUDED)

	PAGE
OTHER SUPPLEMENTAL INFORMATION	
TAX INCREMENT FINANCE AUTHORITY:	
BALANCE SHEET – GOVERNMENTAL FUND	35
RECONCILIATION OF THE TAX INCREMENT FINANCE AUTHORITY'S GOVERNMENTAL FUND BALANCE SHEET WITH THE STATEMENT OF NET ASSETS	36
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUND	37
RECONCILIATION OF THE TAX INCREMENT FINANCE AUTHORITY'S STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES	38
OTHER REPORTS	
GAO GOVERNMENT AUDITING STANDARDS REPORT	39 - 40
COMMUNICATION TO CITY COUNCIL	41 - 43
AUDITOR'S COMMENTS AND RECOMMENDATIONS	44 - 46



Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

184 West Carleton Road

Hillsdale, Michigan 49242

Telephone: 517/439-9331

FAX: 517/439-1894

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Reading, Michigan
Reading, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Reading, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The City of Reading, Michigan, included in its basic financial statements its investment in Reading Community Fire Department, a joint venture between the City and Reading Township, based on financial statements that have not been audited, and we were not engaged to audit the joint venture financial statements as part of our audit of the City's basic financial statements. The joint venture financial activities, as described in Note 2, are included in the City's basic financial statements as governmental activities and represent approximately 3.4%, 3.6%, and 2.6% of the assets, net assets, and expenses, respectively, of the City's aggregate governmental activities.

In our opinion, except for the effects of such adjustments to governmental activities financial statements, if any, as might have been determined to be necessary had the Reading Community Fire Department's financial statements been audited, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for City of Reading, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2005 on our consideration of City of Reading, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of the audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, budgetary comparisons and retirement system analysis of funding progress on pages iii through ix and 31 through 34 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying *other supplemental information* identified in the table of contents, is not a required part of the basic financial statements. The *other supplemental information* is presented for the purpose of additional analysis that collectively comprises the City of Reading, Michigan's basic financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements. The *other supplemental information* has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Osbourne, March, Condon & Co P.C.

Certified Public Accountants

Hillsdale, Michigan
July 29, 2005

CITY OF READING, MICHIGAN

Management's Discussion and Analysis Year Ended June 30, 2005

The following discussion and analysis of the financial performance for the City of Reading, Michigan, (the "City") provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the City's financial statements.

Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2005:

- Property taxes are the City's single largest source of revenue. The City's tax base, net of captured taxable value from the TIFA, for fiscal year 2005 was equal to a taxable value of \$10,422,000 which represents an increase of \$377,000 or 3.75 percent.
- State-shared revenue, the second largest revenue source, was increased by the State of Michigan by approximately \$7,100 this year. This represents a 5.31 percent increase over prior year.
- The City sold property resulting in additional cash receipts of \$43,793.
- The City purchased a new fire rescue vehicle jointly with Reading Township to support fire services rendered by the Reading Community Fire Department, a joint venture between the City and Township in the amount of \$218,856. The City's portion equals \$109,478. The City financed \$100,000 of its portion of the acquisition.
- The City received a grant from the State of Michigan to receive a new optical scan voting machine in the amount of \$5,250.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Reading, Michigan's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business, and therefore, are prepared using the accrual basis of accounting. These statements provide a longer-term view of the City's finances and whether taxpayers have funded the full cost of providing government services. The first two statements are government-wide and include the following:

- The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and state shared revenues and earned but unused sick and vacation leave).

Overview of the Financial Statements (Continued)

Government-wide financial statements (concluded). The governmental activities of the City include general government, public safety, public works, capital improvement, and parks and recreation. The government-wide financial statements can be found on pages 1-2 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City of Reading, Michigan, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the City's operations in more detail than the government-wide financial statements. These statements present a short-term view and tell how taxpayer resources were spent during the year. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements tell how general government services, like public safety, were financed in the short-term as well as what remains for future spending. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Reading, Michigan, maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street, Local Street, and Capital Projects Fund. All the funds are considered major funds except for the Capital Projects Fund, which is classified as a non-major fund.

The City adopts an annual appropriated budget for all its funds, except for the Capital Projects Fund. Budgetary comparison schedules have been provided for the General, Major Street, and Local Street Funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 3-6 of this report.

Proprietary funds. The City of Reading, Michigan maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer disposal systems operations and refuse operations. The *Internal Service fund* is used to report machinery and equipment purchases and maintenance of the equipment provided to other departments of the City on a cost reimbursement basis. This fund's primary charges are to governmental activities and have been included as such in the government-wide financial statements.

Overview of the Financial Statements (Concluded)

Proprietary funds (concluded). Proprietary funds provide the same type of information as the government-wide financial statements, but provide more detail and information, such as cash flows. The proprietary fund financial statements provide separate information of the Water and Sewer Fund, both of which are considered to be major funds, and separate information of the Refuse Fund which is classified as a non-major fund. The basic proprietary fund financial statements can be found on pages 7-11 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government, such as the Tax Fund where property taxes are collected and disbursed on behalf of other local units of government, or restricted for a particular use, such as the Cemetery Perpetual Care Trust Fund established by individuals in the community for maintenance of the City's cemetery. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support City of Reading, Michigan's own programs or because of restrictions on the use of the resources that benefit individuals. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 12-13 of this report.

Financial Analysis of the City as a Whole

The City's combined net assets increased by approximately 1.8 percent from a year ago.

The increase in net assets of governmental activities in the amount of \$41,545 is due to the following:

- There was a net increase in capital and infrastructure assets in the amount of \$29,585 resulting from purchases of equipment.
- The City recognized gain in the amount of \$15,665 from the sale of property on a land-contract agreement.
- The City increased its cash on hand by approximately \$35,406.
- The City's investment in the Reading Community Fire Department, a joint venture between the City and Reading Township, decreased by \$10,251 during the year.
- A decrease in net assets resulting from net changes in various other assets and liabilities in the amount of \$28,860.

The decrease in net assets of business-type activities in the amount of \$65,222 is due to the following:

- There was an increase in capital assets in the amount of \$107,274 comprised of an increase in construction in process of \$67,242 relating to the planned water project to occur in the future and cost related to improvements to the water distribution system.
- Increase in accumulated depreciation by \$72,031.
- Increase in inventory of \$12,894 resulting from a restatement of prior years net assets.
- Reduction of long-term and short-term liability obligations net of increase in cash and receivables in the amount of \$17,085.

CITY OF READING, MICHIGAN

Management's Discussion and Analysis Year Ended June 30, 2005

Financial Analysis of the City as a Whole (Continued)

The following table shows, in a condensed format, the net assets of the City of Reading, Michigan as of June 30, 2005 and 2004.

TABLE 1 – City of Reading, Michigan's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current assets	\$ 558,044	\$ 519,604	\$ 583,525	\$ 561,530	\$ 1,141,569	\$ 1,081,134
Capital assets	511,696	387,111	2,478,952	2,443,709	2,990,648	2,830,820
Other noncurrent assets	1,390,227	1,449,263	37,151	45,530	1,427,378	1,494,793
Total Assets	\$ 2,459,967	\$ 2,355,978	\$ 3,099,628	\$ 3,050,769	\$ 5,559,595	\$ 5,406,747
Liabilities and Net Assets						
Liabilities:						
Current liabilities	\$ 21,782	\$ 41,262	\$ 45,958	\$ 46,000	\$ 67,740	\$ 87,262
Long-term liabilities	116,624	34,699	1,233,467	1,262,682	1,350,091	1,297,381
Total Liabilities	\$ 138,406	\$ 75,961	\$ 1,279,425	\$ 1,308,682	\$ 1,417,831	\$ 1,384,643
Net Assets:						
Invested in capital, net of related debt	\$ 416,696	\$ 387,111	\$ 1,210,352	\$ 1,146,109	\$ 1,627,048	\$ 1,533,220
Restricted			256,773	275,976	256,773	275,976
Unrestricted	1,904,865	1,892,906	353,078	320,002	2,257,943	2,212,908
Total Net Assets	\$ 2,321,561	\$ 2,280,017	\$ 1,820,203	\$ 1,742,087	\$ 4,141,764	\$ 4,022,104
Total Net Assets and Liabilities	\$ 2,459,967	\$ 2,355,978	\$ 3,099,628	\$ 3,050,769	\$ 5,559,595	\$ 5,406,747

The following is the government-wide results of operations for the fiscal year ended June 30, 2005:

The City's governmental activity revenues are derived primarily from property taxes, state-shared revenues, interest income and charges for services. Revenues for fiscal year 2005 were actually down by \$42,000 compared to last year due to the fact that last year the City received contributions from the Reading Tax Increment Financing Authority of \$24,000 for City projects, transfers from business-type activities and the Cemetery Trust Fund totaling \$28,000 which did not reoccur in the current fiscal year.

The City's Business-Type Activities, which are made up of water, sewer and refuse revenues, are derived from charges for services and interest income. The sewer fund was able to remain in the black, due to an increase in rates. Revenues in the refuse fund had remained steady, but due to an increase in expenditures from the contractor and increasing costs for Spring Clean up, there will be an increase of \$1.00/month per unit for the monthly refuse rates. The revenues have decreased in the business-type activities due to the fact that the water fund revenues have been declining over the past few years. The City worked with the MDEQ to evaluate the charges for the water fund and has looked into the possibility for increasing the readiness to serve charge based on meter size. This will cover costs for maintaining the system regardless of whether water is used.

CITY OF READING, MICHIGAN

Management's Discussion and Analysis Year Ended June 30, 2005

Financial Analysis of the City as a Whole (Concluded)

TABLE 2 – Changes in City of Reading, Michigan's Net Assets

	Governmental Activities		Business-Type Activities	
	2005	2004	2005	2004
General Revenue				
Property taxes	\$ 137,970	\$ 132,800	\$	\$
State revenues	220,470	215,204		
Charges for services	29,033	47,139	448,495	383,101
Interest	5,924	15,972	6,672	6,963
TIFA donations		23,745		11,600
Other	35,512	14,264	1,712	1,640
Transfers		27,971		
Total Revenue	<u>\$ 428,909</u>	<u>\$ 477,095</u>	<u>\$ 468,479</u>	<u>\$ 391,704</u>
Program Expenses				
General government	\$ 174,574	\$ 186,594	\$	\$
Public safety	87,552	97,164		
Highways and streets	104,965	88,583		
Capital outlay	7,093	18,824		
Depreciation (unallocated)	13,180	6,524		
Water			244,670	230,711
Sewer			107,017	119,073
Refuse			51,570	49,502
Transfer				22,971
Total Program Expenses	<u>\$ 387,364</u>	<u>\$ 397,689</u>	<u>\$ 403,257</u>	<u>\$ 422,257</u>
Change in Net Assets	<u>\$ 41,545</u>	<u>\$ 79,406</u>	<u>\$ 65,222</u>	<u>\$ (30,553)</u>

Financial Analysis of the City's Funds

The City jointly operates the Reading Community Fire Department with Reading Township. In August of 2004, the two entities jointly purchased a new Pumper/Tanker for the Department at a total cost of \$218,956. The City financed \$100,000 of their portion with County National Bank for ten years with a debt payment of approximately \$13,000 annually for ten years. Additionally, in November of 2004 the City sold the Basswood Centre, this resulted in additional revenues of \$43,793. The City also received an optical scan voting machine through State Grant money. The total amount of this grant was \$5,250.

The Capital Projects Fund, which is supported by transfers in from the City's Major Funds, was able to continue with the completion of the Walnut Street storm drain work and the storm drain work on East Elm Street and the drain work on the Northwest corner of town.

The Major and Local Street Funds are used for the maintenance of the City streets. This year the City was able to do additional chip sealing on local streets. Due to heavy snow falls, there was an increase in wages, maintenance supplies (i.e. salt, sand etc.) and also in the use of equipment, which meant larger equipment rental charges. Although there were additional costs, the Major Street Fund was able to stay within budget.

CITY OF READING, MICHIGAN

Management's Discussion and Analysis Year Ended June 30, 2005

Financial Analysis of the City's Funds (Concluded)

The Sewer Fund has been able to remain in the black after increasing rates in September of 2004. The Water Fund has shown a decrease in revenues in the last few years and we have been working with the MDEQ to do a financial analysis of the City's water system.

General Fund Highlights

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$76,193 for operating expenses. The General Fund also contributes to the Local Street Fund for operating and maintenance costs. City departments overall stayed below budget, resulting in total expenditures of approximately \$62,000 below the original budget.

Capital Asset and Debt Administration

At the end of fiscal year 2005, the City had approximately \$2,921,000 (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, vehicles, etc. The City elected to follow the method of prospective reporting of infrastructure assets provided in accounting standards. The only infrastructure asset reported at June 30, 2005 was the capitalization of a storm drain in the amount of \$69,865.

The City continues to pay down existing debt obligations related to capital investments. However, the City did acquire a new note in the amount of \$100,000 related to the new fire vehicle acquisition. At June 30, 2005 debt related to capital assets totaled \$1,363,000. These debt obligations are scheduled to be paid off by November 2035.

Economic Factors and Next Year's Budgets and Rates

The City's General Fund budget for next year calls for a decrease in the Police Department expenditures, by cutting the part time hours from 40 hours a week to 30 hours a week. This becomes necessary after continued cuts in State Revenue Sharing and the continuing rise of health insurance premiums.

The Capital Projects Fund is taking on a few projects which will include the construction of a salt storage building on property to be acquired from the Reading Emergency Unit, which is adjacent to the public works garage. Also, we hope to put an addition onto the public works garage to allow better storage for equipment and maintenance supplies.

The Major and Local Street Funds have also budgeted conservatively, but are intending on continuing some necessary maintenance to streets, such as chip sealing, slurry sealing and possibly even repaving of Railroad Street from Maple to Elm.

Economic Factors and Next Year's Budgets and Rates (Concluded)

The Water Fund did not see an increase in rates during the last fiscal year; the financial analysis showed that we need to restructure our readiness to serve rates based on the size of a hook up. Currently all users are paying the same regardless of the size of their hook up. The water system will see expenditures resulting in a change in the EPA's requirements for the arsenic standard. The City has been working with the MDEQ to get an extension to treat the arsenic in the City's water supply from the January 23, 2006 completion date to January 23, 2008. This will give the City time to hire a consultant to analyze the system to see what will be the best approach not only financially, but will help to meet future standards.

The Sewer Fund rates were increased last fiscal year and most likely there will be significant increase in future rates due to a \$2.2 million dollar loan that was approved by USDA for improvements to the system, which will include but are not limited to, the addition of a third lagoon, upgrades to the lift stations and replacement of sanitary and storm sewer lines.

The City's 2005/2006 budget is basically conservative while still maintaining the level of services that the taxpayers expect. These include, but are not limited to, police and fire protection, street maintenance, planning and zoning, code enforcement, refuse pickup and water and sewer.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report, or need additional information, or would like to obtain financial statements, we welcome you to contact the City Clerk's office located at 113 Main Street, Reading, Michigan 49274.

CITY OF READING, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2005

	PRIMARY GOVERNMENT			COMPONENT UNIT
	GOVERNMENTAL ACTIVITIES	BUSINESS ACTIVITIES	TOTAL	TAX INCREMENT FINANCE AUTHORITY
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 498,307	\$ 484,953	\$ 983,260	\$ 224,901
Accounts receivable		73,258	73,258	853
Land contract receivable, current portion				28,700
Bond assessment receivable, current portion		8,013	8,013	
Due from other governments	58,096		58,096	
Due from agency fund	1,641		1,641	
Inventory		12,894	12,894	
Internal balances		4,407	4,407	
Total Current Assets	\$ 558,044	\$ 583,525	\$ 1,141,569	\$ 254,454
Noncurrent Assets:				
Land contract receivable, net of current portion	\$	\$	\$	\$ 567,619
Bond assessment receivable, net of current portion		37,151	37,151	
Cemetery grave sites	1,305,600		1,305,600	
Investment in joint venture	84,627		84,627	
Investment in land				328,445
Capital assets	744,085	3,648,943	4,393,028	17,860
Infrastructure assets	69,865		69,865	
Construction in process		142,242	142,242	
Accumulated depreciation	(302,254)	(1,312,233)	(1,614,487)	(4,324)
Total Noncurrent Assets	\$ 1,901,923	\$ 2,516,103	\$ 4,418,026	\$ 909,600
TOTAL ASSETS	\$ 2,459,967	\$ 3,099,628	\$ 5,559,595	\$ 1,164,054
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable	\$ 9,911	\$ 5,354	\$ 15,265	\$ 14,926
Long-term debt, current portion	5,000	29,000	34,000	28,700
Compensated absences, current portion	2,464	3,004	5,468	
Accrued interest		8,600	8,600	
Internal balances	4,407		4,407	
Total Current Liabilities	\$ 21,782	\$ 45,958	\$ 67,740	\$ 43,626
Noncurrent Liabilities:				
Compensated absences, net of current portion	\$ 3,146	\$ 2,467	\$ 5,613	\$
Pension benefit obligation	23,478		23,478	
Long-term debt, net of current portion	90,000	1,231,000	1,321,000	567,619
Total Noncurrent Liabilities	\$ 116,624	\$ 1,233,467	\$ 1,350,091	\$ 567,619
TOTAL LIABILITIES	\$ 138,406	\$ 1,279,425	\$ 1,417,831	\$ 611,245
Net Assets:				
Invested in capital assets, net of related debt	\$ 416,696	\$ 1,210,352	\$ 1,627,048	\$ 13,536
Restricted for bond payments		256,773	256,773	
Unrestricted	1,904,865	353,078	2,257,943	539,273
Total Net Assets	\$ 2,321,561	\$ 1,820,203	\$ 4,141,764	\$ 552,809
TOTAL LIABILITIES AND NET ASSETS	\$ 2,459,967	\$ 3,099,628	\$ 5,559,595	\$ 1,164,054

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2005

		PROGRAM REVENUES		
	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTION</u>	<u>CAPITAL GRANTS AND CONTRIBUTION</u>
PRIMARY GOVERNMENT				
Governmental Activities:				
General government	\$ 174,574	\$ 29,033	\$	\$ 5,528
Public safety	87,552			
Highways and streets	104,965		79,760	
Capital outlay	7,093			
Depreciation (unallocated) - excludes direct depreciation expense	13,180			
Total Governmental Activities	<u>\$ 387,364</u>	<u>\$ 29,033</u>	<u>\$ 79,760</u>	<u>\$ 5,528</u>
Business-Type Activities:				
Sewer Fund	\$ 107,017	\$ 211,010	\$	\$
Water Fund	244,670	187,275	11,600	
Refuse Fund	51,570	50,210		
Total Business-type Activities	<u>\$ 403,257</u>	<u>\$ 448,495</u>	<u>\$ 11,600</u>	<u>\$</u>
TOTAL PRIMARY GOVERNMENT	<u><u>\$ 790,621</u></u>	<u><u>\$ 477,528</u></u>	<u><u>\$ 91,360</u></u>	<u><u>\$ 5,528</u></u>
COMPONENT UNITS				
Tax Increment Finance Authority	<u>\$ 97,811</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

GENERAL REVENUES

Property taxes
State-shared revenues
Interest
Other
Gain on sale of property
Rental income

TOTAL GENERAL REVENUES

CHANGE IN NET ASSETS

NET ASSETS -
BEGINNING OF YEAR, RESTATED

NET ASSETS - END OF YEAR

See accompanying notes to the basic financial statements.

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS

<u>PRIMARY GOVERNMENT</u>			<u>COMPONENT UNIT</u>
<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>	<u>TAX INCREMENT FINANCE AUTHORITY</u>
\$ (140,013)	\$	\$ (140,013)	\$
(87,552)		(87,552)	
(25,205)		(25,205)	
(7,093)		(7,093)	
(13,180)		(13,180)	
<u>\$ (273,043)</u>	<u>\$</u>	<u>\$ (273,043)</u>	<u>\$</u>
\$	\$ 103,993	\$ 103,993	\$
	(45,795)	(45,795)	
	(1,360)	(1,360)	
<u>\$</u>	<u>\$ 56,838</u>	<u>\$ 56,838</u>	<u>\$</u>
<u>\$ (273,043)</u>	<u>\$ 56,838</u>	<u>\$ (216,205)</u>	<u>\$</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (97,811)</u>
\$ 137,970	\$	\$ 137,970	\$ 102,112
140,710		140,710	
5,924	6,672	12,596	34,110
10,993	1,712	12,705	3,000
15,665		15,665	5,500
3,326		3,326	1,125
<u>\$ 314,588</u>	<u>\$ 8,384</u>	<u>\$ 322,972</u>	<u>\$ 145,847</u>
\$ 41,545	\$ 65,222	\$ 106,767	\$ 48,036
2,280,016	1,754,981	4,034,997	504,773
<u>\$ 2,321,561</u>	<u>\$ 1,820,203</u>	<u>\$ 4,141,764</u>	<u>\$ 552,809</u>

CITY OF READING, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2005

	MAJOR FUNDS			NON-MAJOR FUND	TOTAL GOVERNMENTAL FUNDS
	GENERAL	MAJOR STREET	LOCAL STREET	CAPITAL PROJECTS	
ASSETS					
Cash and cash equivalents	\$ 314,736	\$ 38,372	\$ 8,674	\$	\$ 361,782
Due from other governmental units	45,390	9,470	3,236		58,096
Due from other funds	3,141				3,141
TOTAL ASSETS	<u>\$ 363,267</u>	<u>\$ 47,842</u>	<u>\$ 11,910</u>	<u>\$</u>	<u>\$ 423,019</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 3,098	\$ 61	\$ 4,937	\$	\$ 8,096
Fund Balances:					
Reserved for subsequent year expenditures	\$ 54,232	\$ 17,602	\$ 3,900	\$	\$ 75,734
Board Designated	26,679				26,679
Unreserved, undesignated	279,258	30,179	3,073		312,510
Total Fund Balances	<u>\$ 360,169</u>	<u>\$ 47,781</u>	<u>\$ 6,973</u>	<u>\$</u>	<u>\$ 414,923</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 363,267</u>	<u>\$ 47,842</u>	<u>\$ 11,910</u>	<u>\$</u>	<u>\$ 423,019</u>

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS

JUNE 30, 2005

GOVERNMENTAL FUND BALANCE \$ 414,923

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and
are not reported in the funds

The cost of the capital and infrastructure assets is	\$ 432,499	
Accumulated depreciation is	<u>(116,355)</u>	
		316,144

Long-term liabilities are not due and payable in the current period and are not reported in the funds

Pension benefit obligation	(23,478)
Fire truck loan	(95,000)
Compensated absences	(5,180)

Cemetery grave sites available for sale are not current financial resources	1,305,600
---	-----------

The Internal Service Fund is also included as governmental activities	323,925
---	---------

Investment in joint venture	<u>84,627</u>
-----------------------------	---------------

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 2,321,561</u>
---------------------------------------	---------------------

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2005

	MAJOR FUNDS			NON-MAJOR FUND	TOTAL GOVERNMENTAL FUNDS
	GENERAL	MAJOR STREET	LOCAL STREET	CAPITAL PROJECTS	
REVENUES					
Taxes	\$ 137,970	\$	\$	\$	\$ 137,970
State revenues	140,710	59,371	20,389		220,470
Charges for services	28,102				28,102
Licenses and permits	5,889				5,889
Fines, fees, and forfeits	242				242
Component unit contributions	5,205				5,205
Interest	5,575	349			5,924
Lease revenue	3,326				3,326
Other	55,150				55,150
TOTAL REVENUES	\$ 382,169	\$ 59,720	\$ 20,389	\$	\$ 462,278
EXPENDITURES					
Current:					
General government	\$ 168,987	\$	\$	\$	\$ 168,987
Public safety	76,193				76,193
Highways and streets		48,425	61,069		109,494
Public works					
Capital outlay	115,006			28,792	143,798
TOTAL EXPENDITURES	\$ 360,186	\$ 48,425	\$ 61,069	\$ 28,792	\$ 498,472
REVENUES OVER (UNDER) EXPENDITURES	\$ 21,983	\$ 11,295	\$ (40,680)	\$ (28,792)	\$ (36,194)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	\$	\$	\$ 40,500	\$ 12,705	\$ 53,205
Operating transfers (out)	(42,205)	(11,000)			(53,205)
Loan proceeds	100,000				100,000
Payment on note	(6,850)				(6,850)
TOTAL OTHER FINANCING SOURCES (USES)	\$ 50,945	\$ (11,000)	\$ 40,500	\$ 12,705	\$ 93,150
NET CHANGE IN FUND BALANCE	\$ 72,928	\$ 295	\$ (180)	\$ (16,087)	\$ 56,956
FUND BALANCES - BEGINNING OF YEAR	287,241	47,486	7,153	16,087	357,967
FUND BALANCES - END OF YEAR	\$ 360,169	\$ 47,781	\$ 6,973	\$	\$ 414,923

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

JUNE 30, 2005

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 56,956

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures, and in the statement of activities these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (13,180)	
Capital outlay	<u>136,705</u>	123,525

Actuarial valuation of the pension benefit obligation that results in an increase in the obligation is not recorded in the governmental funds, but is recorded in the governmental activities as an increase in current year contributions (6,544)

Gain on sale of property is recognized as revenue when cash is collected in the governmental funds, but is recorded in the statement of activities when the gain is earned 15,665

Increase in accumulated employee sick and vacation pay are recorded when earned in the statement of activities (961)

Repayment of fire truck loan is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 5,000

Internal Service Funds are also included as governmental activities to the extent of activity occurring between governmental funds and the Internal Service Fund 7,189

Net loss from joint venture is not recorded in the governmental funds, but is recorded in the statement of activities (10,251)

Loan proceeds are not reported as financing sources on the statement of activities (100,000)

Cash collections on the sale of cemetery lots are included in revenues in the governmental funds, but are not included in revenues in the governmental activities (5,200)

Cash collections on the land contract installment receivable are included in revenues in the governmental funds, but are not included in revenues in the governmental activities (43,834)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 41,545

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2005

	ENTERPRISE FUNDS	
	MAJOR FUNDS	
	SEWER	WATER
ASSETS		
Current Assets:		
Cash	\$ 111,836	\$ 370,255
Accounts receivables	35,021	29,174
Bond assessment receivable, current portion		8,013
Inventory		12,894
Total Current Assets	\$ 146,857	\$ 420,336
Noncurrent Assets:		
Bond assessment receivable, net of current portion	\$	\$ 37,151
Capital assets	1,007,567	2,783,618
Accumulated depreciation	(544,469)	(767,764)
Total Noncurrent Assets	\$ 463,098	\$ 2,053,005
TOTAL ASSETS	\$ 609,955	\$ 2,473,341
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 1,935	\$ 3,365
Long-term debt, current portion		29,000
Compensated absences, current portion	1,432	1,572
Accrued interest		8,600
Due to other funds		
Total Current Liabilities	\$ 3,367	\$ 42,537
Noncurrent Liabilities:		
Compensated absences, net of current portion	\$ 1,194	\$ 1,273
Long-term debt, net of current portion		1,231,000
Total Noncurrent Liabilities	\$ 1,194	\$ 1,232,273
TOTAL LIABILITIES	\$ 4,561	\$ 1,274,810
Net Assets :		
Invested in capital assets, net of related debt	\$ 463,098	\$ 747,254
Restricted for bond repayment		256,773
Unrestricted	142,296	194,504
Total Net Assets	\$ 605,394	\$ 1,198,531
TOTAL LIABILITIES AND NET ASSETS	\$ 609,955	\$ 2,473,341

See accompanying notes to the basic financial statements.

ENTERPRISE FUNDS		INTERNAL SERVICE FUND
NONMAJOR FUND		
REFUSE	TOTAL	EQUIPMENT
\$ 2,862	\$ 484,953	\$ 136,525
9,063	73,258	
	8,013	
	12,894	
\$ 11,925	\$ 579,118	\$ 136,525
\$	\$ 37,151	\$
	3,791,185	381,451
	(1,312,233)	(185,899)
\$	\$ 2,516,103	\$ 195,552
\$ 11,925	\$ 3,095,221	\$ 332,077
\$ 54	\$ 5,354	\$ 1,815
	29,000	
	3,004	
	8,600	
1,500	1,500	
\$ 1,554	\$ 47,458	\$ 1,815
\$	\$ 2,467	\$ 430
	1,231,000	
\$	\$ 1,233,467	\$ 430
\$ 1,554	\$ 1,280,925	\$ 2,245
\$	\$ 1,210,352	\$ 195,552
	256,773	
10,371	347,171	134,280
\$ 10,371	\$ 1,814,296	\$ 329,832
\$ 11,925	\$ 3,095,221	\$ 332,077

CITY OF READING, MICHIGAN

PROPRIETARY FUNDS

RECONCILIATION OF ENTERPRISE FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS

YEAR ENDED JUNE 30, 2005

ENTERPRISE FUNDS NET ASSETS	\$ 1,814,296
-----------------------------	--------------

Amounts reported for business activities in the statement of net assets are different because:

Internal Service Funds are also included as business activities to the extent of activity occurring between Enterprise Funds and the Internal Service Fund	<u>5,907</u>
---	--------------

NET ASSETS OF BUSINESS-TYPE ACTIVITIES	<u><u>\$ 1,820,203</u></u>
--	----------------------------

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS

YEAR ENDED JUNE 30, 2005

	ENTERPRISE FUNDS	
	MAJOR FUNDS	
	SEWER	WATER
OPERATING REVENUES		
Charges for services	\$ 211,010	\$ 187,275
Rental income		
TOTAL OPERATING REVENUE	\$ 211,010	\$ 187,275
OPERATING EXPENSES		
General operations and maintenance	\$ 91,779	\$ 131,858
Depreciation	16,436	55,595
TOTAL OPERATING EXPENSES	\$ 108,215	\$ 187,453
OPERATING INCOME	\$ 102,795	\$ (178)
NON-OPERATING REVENUES (EXPENSES)		
Interest income	\$ 130	\$ 6,542
Interest expense		(58,415)
Contribution from TIFA		11,600
Other income		1,712
TOTAL NET NON-OPERATING REVENUES (EXPENSES)	\$ 130	\$ (38,561)
NET INCOME (LOSS)	\$ 102,925	\$ (38,739)
TOTAL NET ASSETS - BEGINNING OF YEAR, RESTATED	502,469	1,237,270
TOTAL NET ASSETS - END OF YEAR	\$ 605,394	\$ 1,198,531

See accompanying notes to the basic financial statements.

<u>ENTERPRISE FUNDS</u>		<u>INTERNAL SERVICE FUND</u>
<u>NON MAJOR FUND</u>		
<u>REFUSE</u>	<u>TOTAL</u>	<u>EQUIPMENT</u>
\$ 50,210	\$ 448,495	\$ 70,480
\$ 50,210	\$ 448,495	\$ 70,480
\$ 51,570	\$ 275,207	\$ 35,759
	72,031	26,940
\$ 51,570	\$ 347,238	\$ 62,699
\$ (1,360)	\$ 101,257	\$ 7,781
\$	\$ 6,672	\$ 1,804
	(58,415)	
	11,600	
	1,712	
\$	\$ (38,431)	\$ 1,804
\$ (1,360)	\$ 62,826	\$ 9,585
11,731	1,751,470	320,247
<u>\$ 10,371</u>	<u>\$ 1,814,296</u>	<u>\$ 329,832</u>

CITY OF READING, MICHIGAN

PROPRIETARY FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2005

NET CHANGE IN NET ASSETS - TOTAL ENTERPRISE FUNDS	\$ 62,826
Amounts reported for business activities in the statement of activities are different because:	
Internal Service Funds are also included as business activities to the extent of activity occurring between Enterprise Funds and the Internal Service Fund	<u>2,396</u>
CHANGE IN NET ASSETS OF BUSINESS ACTIVITIES	<u>\$ 65,222</u>

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2005

	ENTERPRISE FUNDS	
	MAJOR FUND	
	SEWER	WATER
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 199,141	\$ 187,194
Cash receipts for interfund services provided		
Payments to employees	(37,806)	(42,272)
Payments to suppliers	(45,672)	(81,210)
Payments to interfund services provided	(8,675)	(8,292)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 106,988	\$ 55,420
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Contribution from TIFA	\$	\$ 11,600
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Collection of customer assessments (principal and interest)	\$	\$ 23,201
Interest paid on capital debt		(58,415)
Principal paid on capital debt		(29,000)
Purchase of capital assets	(67,242)	(40,032)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (67,242)	\$ (104,246)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest	\$ 130	\$ 3,807
NET CHANGE IN CASH	\$ 39,876	\$ (33,419)
CASH - BEGINNING OF YEAR	71,960	403,674
CASH - END OF YEAR	\$ 111,836	\$ 370,255
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 102,795	\$ (178)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	\$ 16,436	\$ 55,595
(Increase) decrease in:		
Accounts receivable	(11,869)	(81)
Increase (decrease) in:		
Accounts payable	(5)	216
Other accrued liabilities	(369)	(132)
Total Adjustments	\$ 4,193	\$ 55,598
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 106,988	\$ 55,420

See accompanying notes to the basic financial statements.

<u>ENTERPRISE FUNDS</u>		<u>INTERNAL SERVICE FUND</u>
<u>NON MAJOR FUND</u>		
<u>REFUSE</u>	<u>TOTAL</u>	<u>EQUIPMENT</u>
\$ 49,680	\$ 436,015	\$
(1,099)	(81,177)	70,480
(50,438)	(177,320)	(6,282)
	(16,967)	(29,036)
<u>\$ (1,857)</u>	<u>\$ 160,551</u>	<u>\$ 35,162</u>
<u>\$</u>	<u>\$ 11,600</u>	<u>\$</u>
\$	\$ 23,201	\$
	(58,415)	
	(29,000)	
	(107,274)	(28,000)
<u>\$</u>	<u>\$ (171,488)</u>	<u>\$ (28,000)</u>
<u>\$</u>	<u>\$ 3,937</u>	<u>\$ 1,804</u>
\$ (1,857)	\$ 4,600	\$ 8,966
4,719	480,353	127,559
<u>\$ 2,862</u>	<u>\$ 484,953</u>	<u>\$ 136,525</u>
<u>\$ (1,360)</u>	<u>\$ 101,257</u>	<u>\$ 7,781</u>
\$	\$ 72,031	\$ 26,940
(530)	(12,480)	
33	244	471
	(501)	(30)
<u>\$ (497)</u>	<u>\$ 59,294</u>	<u>\$ 27,381</u>
<u>\$ (1,857)</u>	<u>\$ 160,551</u>	<u>\$ 35,162</u>

CITY OF READING, MICHIGAN

FIDUCIARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2005

	TAX COLLECTION AGENCY FUND	PRIVATE PURPOSE TRUST - CEMETERY PERPETUAL CARE FUND
ASSETS		
Cash	<u>\$ 1,777</u>	<u>\$ 7,242</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Due to other funds	<u>\$ 1,777</u>	<u>\$</u>
Net Assets:		
Expendable	<u>\$</u>	<u>\$ 7,242</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$</u>	<u>\$ 7,242</u>

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2005

	PRIVATE PURPOSE TRUST - CEMETERY PERPETUAL CARE FUND
REVENUE	
Interest revenue	\$ 41
NET ASSETS - BEGINNING OF THE YEAR	\$ 7,201
NET ASSETS - END OF THE YEAR	\$ 7,242

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Reading, Michigan conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

FINANCIAL REPORTING ENTITY

Established on May 4, 1934, the City of Reading, Michigan, most recently amended its Charter on July 12, 2000. The City operates under a Council-Manager form of government and provides the following services as authorized by its Charter: Public Safety (Police and Fire), Highway and Streets, Sanitation, Recreation, Public Improvements, Planning and Zoning, and General Administrative Services.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

In conformity with generally accepted accounting principles, the financial statements of the component unit have been included in the financial reporting entity as a discretely presented component unit.

Discretely Presented Component Unit - The component unit column in the basic financial statements include the financial data of the City's component unit. The unit is reported in a separate column to emphasize that it is legally separate from the City.

Tax Increment Finance Authority (TIFA) - The Authority is governed by a separate board appointed by the City Council to promote economic growth in the TIFA district.

Joint Venture - Discussed at Note 2.

ECONOMIC DEPENDENCY

The City is economically dependent on the State of Michigan for state shared revenues. Absent allocations from the State, the City's operating results would report expenditures exceeding revenues in its General, Major Street, and Local Street Funds. Furthermore, the aforementioned funds would be in a deficit position within a two year period continuing the programs the City currently offers.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements report information on all of the non-fiduciary activities of the primary government and its component units. The effect of inter-fund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities rely on user fees and charges.

CITY OF READING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONCLUDED)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and, (2) grants and contributions that are restricted to meeting the operational and capital requirements of a particular function. Taxes, intergovernmental payments, and other items not included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND
FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures related to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include property taxes and State-shared revenues. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

Major and Local Street Funds are Special Revenue Funds that account for revenue received from gasoline tax through the State of Michigan under Act 51. Expenditures in these funds include maintenance of streets and roadway improvements.

CITY OF READING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND
FINANCIAL STATEMENT PRESENTATION (CONTINUED)

The City reports the following major proprietary funds:

The *Water and Sewer Funds* are the City's only major proprietary funds. They account for the activities of the water distribution and sewage collection systems.

Additionally, the City reports the following fund types:

Governmental Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

Proprietary Funds

Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for services. Operating expenses for proprietary funds include the cost of services, administrative expenses, and depreciation of capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The *Internal Service Fund* accounts for shared machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis. This fund accounted for 25% and 75% of its activity with business-type and governmental activities, respectively. As a result, the assets and equity were reported in governmental activities and the net profit was allocated on a pro rata basis based on the aforementioned activity percentages. Business-type and governmental activities reported net profit of \$2,396 and \$7,189 respectively, for a total net profit of \$9,585. Therefore, the Internal Service Fund's net assets in the total amount of \$329,832 is reported in the business-type and governmental activities in the amounts of \$5,907 and \$323,925 respectively.

Fiduciary Funds

Fiduciary Funds are used to account for assets held in a trustee or agency capacity for others, and therefore are not available to support City operations. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are not included in the government-wide statements. The City presently collects and distributes property taxes on behalf of and to other local units of government through its Agency Fund. The Private Purpose Trust Fund accounts for financial resources that were accumulated for the benefit of a deceased individual. The financial resources are restricted to expenditures for the maintenance of grave sites.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND
FINANCIAL STATEMENT PRESENTATION (CONCLUDED)

Additional Information

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort costs and program revenues reported for the various functions concerned.

When expenses are incurred for purposes for which both restricted and unrestricted net assets are available, restricted net assets are used prior to unrestricted net assets.

BANK DEPOSITS

Cash includes cash on hand, demand deposits, savings, certificate of deposits, and municipal mutual funds that are highly liquid.

RECEIVABLES AND PAYABLES

Outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All receivables are reported at their net realizable values.

CAPITAL ASSETS

Capital assets that include land, buildings, improvements, equipment, and vehicles are reported in the government-wide financial statements. The City defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized but rather expensed in the period incurred.

The City has elected under Governmental Accounting Standards Board Statement No. 34 not to report infrastructure retrospectively. Newly acquired or constructed infrastructure will be capitalized and depreciated over their useful lives. There were no additions to infrastructure during the year.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS (CONCLUDED)

Buildings, improvements, equipment, vehicles and infrastructure are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	50
Improvements	25
Equipment	3 - 20
Vehicles	4 - 10
Infrastructure	50

COMPENSATED ABSENCES

Eligible employees may earn twelve sick days and can accumulate up to ten sick days annually. Employees are paid 33% of earned sick leave exceeding the limit at the end of the year. Upon death or retirement, accumulated sick days are paid at the employee's prevailing rate of pay. Due to the uncertainty of maturity of this liability, the City has accrued the estimated amount of accumulated sick pay in noncurrent liabilities in the statement of net assets.

Furthermore, eligible employees earn vacation leave time upon the completion of one service year. A total of 5 to 20 days of vacation may be earned based on the number of service years employed. Employees cannot accumulate vacation leave, and therefore it is forfeited if not used by the end of the calendar year.

During the year, the net increase in compensated absences was \$6,544 leaving an ending balance of \$23,478.

LONG-TERM OBLIGATIONS

In the government-wide financial statements and the proprietary fund types reported in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. If applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF READING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

PROPERTY TAX

The City of Reading, Michigan, bills and collects property taxes and distributes them to other local units of government. Properties are assessed as of December 31, and the related real property taxes are levied and become a lien and are payable on July 1 of the following year for summer taxes and December 31 for winter taxes. Summer and winter taxes are due without penalty if paid by September 14 and February 14, respectively. Delinquent taxes are turned over to the County and added to the County tax roll. The County remits all uncollected City delinquent real property tax to the City by June 30. Uncollected personal property taxes are not accrued because the date of collection is uncertain.

BUDGETS AND BUDGETARY ACCOUNTING

The City's procedures in establishing the budgetary data reflected in the financial statements are as follows:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of a resolution.
4. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
6. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles, which is the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget approved or as amended by the City Council. The General Fund budget is adopted at the department level and all other funds are adopted at the fund level.

ENCUMBRANCE ACCOUNTING

Encumbrances for goods and services are documented by requisitions or contracts. Appropriations lapse at June 30 and any encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at June 30, 2005.

CITY OF READING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 2: JOINT VENTURE

The City participates with the Reading Township in the Reading Community Fire Department (the "Department"), a joint venture pursuant to an agreement entered into between the two parties. In accordance with the provisions of Governmental Accounting Standards Board No. 14, the joint venture results from the on going financial responsibility of the Department's operations agreed to by the aforementioned municipalities pursuant to the contractual agreement. The Board of Directors is comprised of two members of the City of Reading Council, two members of the Reading Township Board, and the Reading Community Fire Department fire chief.

The agreement is silent with respect to termination of the joint venture by either of the municipalities.

The Fire Department reported expenditures in excess of revenues in the amount of \$20,502 in its year ended April 30, 2005 general ledger. The City of Reading, Michigan, reported \$10,251 (fifty percent) of the expenditures over revenues in its government-wide financial statements in governmental activities. The City's investment in the joint venture is reported in the Statement of Net Assets under Governmental Activities in the amount of \$84,627. The financial activity of the Fire Department for its year ended April 30, 2005 has not been audited, and we were not engaged to audit the Fire Department's financial statements as part of our audit of the City's basic financial statements.

Copies of the Fire Department's financial statements may be obtained at the Reading Community Fire Department, in Reading, Michigan.

NOTE 3: DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The deposit and investment policy adopted by the City Council is in accordance with Public Act 196 of 1997.

At year end, deposits and investments were comprised of the following:

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units	Fiduciary Funds
Cash	\$ 498,307	\$ 228,180	\$ 726,487	\$ 224,901	\$ 1,777
Cash - restricted		256,773	256,773		7,242
	<u>\$ 498,307</u>	<u>\$ 484,953</u>	<u>\$ 983,260</u>	<u>\$ 224,901</u>	<u>\$ 9,019</u>

Cash reported in business-type activities and fiduciary funds as restricted is for the repayment of bond obligations and perpetual care of the cemetery, respectively.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 3: DEPOSITS AND INVESTMENTS (CONCLUDED)

The breakdown of cash between the City and component unit are as follows:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>
Cash (checking accounts, savings accounts and Certificates of Deposits)	\$ 553,874	\$ 4,730	\$ 1,777
Municipal mutual funds	<u>429,386</u>	<u>220,171</u>	<u>7,242</u>
Total	<u>\$ 983,260</u>	<u>\$ 224,901</u>	<u>\$ 9,019</u>

Deposits

The City's deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$1,213,917. Of that amount, \$400,178 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those with an acceptable estimated risk level are used as depositories.

Investments

The City and its component unit's investments at June 30, 2005 consisted of governmental mutual funds totaling \$656,799. Investments are normally categorized to give an indication of the level of risk assumed by the City and its component unit; however, governmental mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The City and its component unit believes that investments in these governmental mutual funds comply with the investment statute noted above.

NOTE 4: LAND CONTRACT RECEIVABLE

During the year, the Tax Increment Financing Authority (TIFA) entered into a land contract agreement with a local business in the amount of \$600,000, as a financing arrangement for the local business to acquire land and a building; see Note 7 for TIFA's financial obligation. The terms of the contract require the local business to pay TIFA monthly installments of \$5,652, which includes interest at 7%, for one hundred and sixty-eight months through February 25, 2019.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 4: LAND CONTRACT RECEIVABLE (CONCLUDED)

Future principal and interest maturities to be collected from the local business are as follows:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 31,817	\$ 51,774	\$ 83,591
2006	28,700	39,121	67,821
2007	30,700	37,121	67,821
2008	33,000	34,821	67,821
2009	35,400	32,421	67,821
2010-2011	220,000	119,105	339,105
2011-2012	<u>216,702</u>	<u>29,850</u>	<u>246,552</u>
	<u>\$ 596,319</u>	<u>\$ 344,213</u>	<u>\$ 940,532</u>

NOTE 5: INTERFUND RECEIVABLES AND PAYABLES

The following are interfund receivables (Due From) and payables (Due To):

Due From – collectible by:	Due to – payable by:	
General Fund	Tax Agency Fund	\$ 1,641
General Fund	Refuse Fund	<u>1,500</u>
		<u>\$ 3,141</u>

Monies owed to the General Fund are for undistributed administration fees and interest income and for an interfund loan to subsidize Refuse Fund's short-term cash flows.

NOTE 6: INVESTMENT IN LAND AND CEMETERY GRAVE SITES

Investment in Land – TIFA

The City's component unit, TIFA, has acquired real property over the past several years with the intent of developing and reselling the land to prospective companies or business owners interested in establishing their businesses in the City of Reading. Investment in these properties are recorded in the statement of net assets at original acquisition cost plus any excavating costs incurred in preparing the land for resale or further development.

Cemetery Grave Sites

The City has available for sale 3,264 cemetery grave sites. These grave sites are available to residents and nonresidents of the City at prices equal to \$400 and \$600 per grave site, respectively. At June 30, 2005 the grave sites were valued at \$1,305,600 based on the resident price of \$400 and reported as non-current assets in the statement of net assets in governmental activities.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 7: CAPITAL ASSETS

Capital asset activity of the primary government was as follows:

	Balance July 1, 2004	Additions	Disposals	Balance June 30, 2005
<u>GOVERNMENTAL ACTIVITIES</u>				
Capital assets not being depreciated:				
Land	\$ 55,674	\$	\$	\$ 55,674
Capital assets being depreciated:				
Buildings and improvements	177,454			177,454
Drains	48,166	21,699		69,865
Equipment	290,500	137,478		427,978
Vehicles	62,951			62,951
Technology	14,500	5,528		20,028
Subtotal	<u>\$ 649,245</u>	<u>\$ 164,705</u>	<u>\$</u>	<u>\$ 813,950</u>
Accumulated depreciation:				
Buildings and improvements	\$ 92,637	\$ 3,597	\$	\$ 96,234
Drains		1,397		1,397
Equipment	121,393	26,126		147,519
Vehicles	37,566	6,288		43,854
Technology	10,538	2,712		13,250
Subtotal	<u>\$ 262,134</u>	<u>\$ 40,120</u>	<u>\$</u>	<u>\$ 302,254</u>
Net Capital Assets	<u>\$ 387,111</u>	<u>\$ 124,585</u>	<u>\$</u>	<u>\$ 511,696</u>

Governmental activities depreciation expense of \$40,120 is comprised of unallocated and allocated depreciation expense of \$13,180 and \$29,940, respectively. Allocated depreciation expense is specifically identifiable with a City department, where as, unallocated is not because it is attributable to multiple departments.

CITY OF READING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 7: CAPITAL ASSETS (CONCLUDED)

	Balance July 1, 2004	Additions	Disposals	Balance June 30, 2005
<u>BUSINESS-TYPE ACTIVITIES</u>				
Capital assets not being depreciated:				
Land	\$ 20,550	\$	\$	\$ 20,550
Capital assets being depreciated:				
Water and sewer distribution system	3,512,895	40,032		3,552,927
Equipment	75,466			75,466
Construction in process	75,000	67,242		142,242
Subtotal	\$ 3,683,911	\$ 107,274	\$	\$ 3,791,185
Accumulated depreciated:				
Water and sewer distribution system	\$ 1,172,077	\$ 70,982	\$	\$ 1,243,059
Equipment	68,125	1,049		69,174
Construction in process				
Subtotal	\$ 1,240,202	\$ 72,031	\$	\$ 1,312,233
Net Capital Assets	\$ 2,443,709	\$ 35,243	\$	\$ 2,478,952

Depreciation expense charged to business-type activities was \$72,031.

	Balance July 1, 2004	Additions	Disposals	Balance June 30, 2005
<u>COMPONENT UNIT - TIFA</u>				
Capital asset being depreciated:				
Equipment	\$ 6,910	\$ 10,950	\$	\$ 17,860
Accumulated depreciation:				
Equipment	\$ 3,225	\$ 1,099	\$	\$ 4,324
Net Capital Asset	\$ 3,685	\$ 9,851	\$	\$ 13,536

Depreciation expense charged to TIFA was \$1,099.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 8: LONG-TERM DEBT

Long-term debt at June 30, 2005 is comprised of the following:

Governmental Activities

\$100,000 note - Hillsdale County National Bank, secured by equipment, due in semi-annual installments of \$5,000, which includes interest at 3.70% through August 2, 2014.

\$ 95,000

Less: current portion

5,000

NET LONG-TERM DEBT

\$ 90,000

Business-Type Activities

Water System Revenue Bonds, bearing interest at 5%. Principal payments due annually in January, in amounts from \$1,000 to \$14,000, maturing in 2020.

\$ 176,000

1980 Special Assessment Bonds, bearing interest at 5%. Principal payments due annually in September, in amounts from \$5,000 to \$15,000, maturing in 2009.

30,000

Water Supply System Junior Lien Revenue Bonds, bearing interest at 4.5%. Principal payments due annually in November in amounts from \$10,000 to \$61,000, maturing in 2036.

1,054,000

\$1,260,000

Less: current portion

29,000

NET LONG-TERM DEBT

\$1,231,000

Component Unit

The Tax Increment Finance Authority obtained a loan described below from a local financial institution to finance the purchase of land and a building in the City of Reading, Michigan's Industrial Park. Likewise, the Authority entered into a land contract agreement with a company, whereby, the agreement allows the company to occupy the building and make payments toward the loan obligation until paid in full; see Note 4. The land contract agreement has been assigned to the financial institution to secure the note obligation. In the event the company defaults on the land contract the local financial institution has full recourse against either the company or the Authority to satisfy the outstanding obligation.

\$600,000 note - Century Bank and Trust, secured by assignment of land contract, due in monthly installments of \$3,960 including interest at 5.0%, through February 25, 2010, at which time a balloon payment in the amount of \$506,892 is due in full.

\$ 596,319

Less: current portion

22,064

NET LONG-TERM DEBT

\$ 574,255

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 8: LONG-TERM DEBT (CONTINUED)

The following is a summary of changes in long-term debt:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005
<u>GOVERNMENTAL ACTIVITIES</u>				
Fire Truck Note	\$	\$ 100,000	\$ 5,000	\$ 95,000
<u>BUSINESS-TYPE ACTIVITIES</u>				
Revenue Bonds	\$ 192,000	\$	\$ 8,000	\$ 184,000
Special Assessment Bonds	40,000		5,000	35,000
Junior Lien Revenue Bonds	1,085,000		15,000	1,070,000
	<u>\$ 1,317,000</u>	<u>\$</u>	<u>\$ 28,000</u>	<u>\$ 1,289,000</u>
<u>COMPONENT UNIT</u>				
Bank note	\$ 184,079	\$	\$ 184,079	\$
Bank note		600,000	3,681	596,319
	<u>\$ 184,079</u>	<u>\$ 600,000</u>	<u>\$ 187,760</u>	<u>\$ 596,319</u>

The following is a schedule of principal and interest maturities:

	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 10,000	\$ 3,422	\$ 13,422	\$ 29,000	\$ 57,080	\$ 86,080
2007	10,000	3,052	13,052	30,000	55,710	85,710
2008	10,000	2,682	12,682	33,000	54,195	87,195
2009	10,000	2,312	12,312	34,000	52,635	86,635
2010	10,000	1,942	11,942	41,000	50,252	91,252
2011-2015	45,000	4,162	49,162	170,000	228,199	398,199
2016-2020				206,000	184,434	390,434
2021-2025				173,000	141,727	314,727
2026-2030				215,000	98,111	313,111
2031-2035				268,000	44,909	312,909
2036				61,000	1,373	62,373
	<u>\$ 95,000</u>	<u>\$ 17,572</u>	<u>\$ 112,572</u>	<u>\$1,260,000</u>	<u>\$ 968,625</u>	<u>\$2,228,625</u>

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 8: LONG-TERM DEBT (CONCLUDED)

	Component Unit		
	Principal	Interest	Total
2006	\$ 22,064	\$ 37,336	\$ 59,400
2007	18,734	28,786	47,520
2008	19,651	27,869	47,520
2009	20,725	26,795	47,520
2010	515,145	17,387	532,532
	<u>\$ 596,319</u>	<u>\$ 138,173</u>	<u>\$ 734,492</u>

Cash paid for interest during the year for governmental activities, business-type activities, and TIFA was \$1,850, \$58,415 and \$22,219 respectively.

NOTE 9: DEFINED BENEFIT PENSION PLAN

Plan Description

The City contributes to the Michigan Municipal Employees' Retirement System (MMERS), which is an agent multiple employer retirement system that covers seven employees of the City. The system provides retirement benefits, as well as death and disability benefits.

Service retirement benefits vest after 10 years of service or after age 60 is attained; payment is based on various factors depending on the type of benefit to be paid. Deferred retirement benefits vest after 10 years of service, but are not paid until the date retirement would have occurred had the member remained an employee. The obligation to contribute to and maintain the system for these employees was established by negotiation with the competitive bargaining units and does not require a contribution from the employees.

Funding Status and Progress

The amounts shown below as "pension benefit obligation" are standardized disclosure measures of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measures are the actuarial present value of credited projected benefits and are intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among systems. The measures are independent of the actuarial funding method used to determine contributions to the system discussed below.

The pension benefit obligation was determined as part of the most recent actuarial valuation dated December 31, 2004. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) total active member payroll is assumed to increase 4.5% per year, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 9: DEFINED BENEFIT PENSION PLAN (CONCLUDED)

Information related to funding of the pension benefit obligation as of December 31, 2004 actuarial valuation is as follows:

Pension Benefit Obligation

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 19,522
Terminated employees not yet receiving benefits	51,340
Employer financed	<u>125,992</u>

Total Actuarial Accrued Liability	\$ 196,854
-----------------------------------	------------

Net assets available for benefits at actuarial value (market value is \$169,236)	<u>173,376</u>
--	----------------

Unfunded Actuarial Accrued Liability	<u>\$ 23,478</u>
--------------------------------------	------------------

Contributions Required

The annual required contribution (ARC) for the fiscal year beginning July 1, 2006 and 2005 is \$7,824 and \$8,532, respectively.

Trend Information

	Valuation Year Ended December 31	
	<u>2004</u>	<u>2003</u>
Net assets available for benefits, as a percentage of pension benefit obligation	88%	90%
Unfunded pension benefit obligation, as a percentage of covered payroll	17%	10%
	Fiscal Year Ended June 30	
	<u>2004</u>	<u>2003</u>
Employer Contributions, as a percentage of covered payroll	5.52%	5.23%

Employer contributions were made in accordance with actuarially determined requirements. The required supplementary information (see table of contents) contained in the additional information is designed to provide information about the plan's progress in accumulating sufficient assets to pay benefits when due.

A copy of the report may be obtained from Gabriel, Roeder, Smith & Co., One Towne Square, Suite 800, Southfield, Michigan 48076.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 10: FUND EQUITIES

Reserved and designated fund balances and restricted net assets at June 30, 2005 are as follows:

The City plans to incur expenditures in excess of revenues in its 2005-2006 budgets. Fund reserves have been established in those funds, expecting to incur decreased fund balance during the fiscal year ending June 30, 2006 as follows:

General Fund	\$ 54,232
Major Street Fund	17,602
Local Street Fund	<u>3,900</u>
	<u>\$ 75,734</u>

General Fund – Board designated \$26,679 in fund balance for the replacement of a fire truck at the Reading Community Fire Department.

Water Fund – Net assets in the amount of \$256,773 are restricted for the repayment of bond debt.

NOTE 11: OPERATING TRANSFERS

Interfund transfers for the current year are as follows:

Governmental Funds

Transfers (out) from:	Transfers in to:	
General Fund	Local Street Fund	\$ (29,500)
General Fund	Capital Improvement Fund	(12,705)
Major Street Fund	Local Street Fund	<u>(11,000)</u>
	Total	<u>\$ (53,205)</u>

Transfers from the General Fund to other funds are to support the operations of those funds.

Transfers from the Major Street Fund to the Local Street Fund are to support local street maintenance.

NOTE 12 RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors, and omissions, employee injuries, unemployment benefits, as well as medical and workmen's compensation benefits provided to employees. The City has purchased commercial insurance for general liability on buildings and property, equipment damage and theft, employee theft, and limited tort claims for specific City facilities or events. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONCLUDED)

JUNE 30, 2005

NOTE 13: CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, City management does not believe such disallowances, if any, will be material to the financial position of the City.

As is the case with other entities, the City faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2005.

NOTE 14: IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

For the year ended June 30, 2005, the Authority implemented the following Governmental Accounting Standards Board pronouncements:

Statements

No. 40 – *Deposit and Investment Risk Disclosures*

NOTE 15: CHANGES IN ACCOUNTING POLICIES –
FUND BALANCE AND NET ASSET RESTATEMENTS

Historically, the City has not recorded inventory in its Water Fund for supplies on hand used to repair water-mains, hydrants, etc. During the year, the City developed an inventory system to account for purchases and usage of supply inventory. Following is the restatement of beginning net assets in the Water Fund to record inventory at July 1, 2004:

	<u>Net Assets</u> <u>June 30, 2004</u>	<u>Restatement</u>	<u>Net Assets</u> <u>July 1, 2004</u>
Water Fund	<u>\$ 1,224,376</u>	<u>\$ 12,894</u>	<u>\$ 1,237,270</u>

Government-Wide Financial Statements

The net effect of the above restatement to government-wide beginning net assets is as follows:

	<u>Net Assets</u> <u>June 30, 2004</u>	<u>Restatement</u>	<u>Net Assets</u> <u>July 1, 2004</u>
Business-Type Activities	<u>\$ 1,742,087</u>	<u>\$ 12,894</u>	<u>\$ 1,754,981</u>

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF READING, MICHIGAN
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND
YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	FINAL BUDGET TO ACTUAL
REVENUE				
Taxes	\$ 132,300	\$ 132,300	\$ 137,970	\$ 5,670
State revenues	132,726	132,726	140,710	7,984
Charges for services	16,100	16,100	28,102	12,002
Licenses and permits	5,600	5,600	5,889	289
Fines, fees, and forfeits	980	980	242	(738)
Component unit contributions	5,000	5,000	5,205	205
Interest	3,000	3,000	5,575	2,575
Lease revenue	4,800	4,800	3,326	(1,474)
Other	1,250	1,250	55,150	53,900
TOTAL REVENUES	\$ 301,756	\$ 301,756	\$ 382,169	\$ 80,413
EXPENDITURES				
General government	\$ 14,916	\$ 14,916	\$ 14,633	\$ 283
City manager	7,526	6,526	5,773	753
Elections	1,700	1,900	1,860	40
Professional fees	14,800	18,500	14,117	4,383
Clerk/treasurer office	11,818	11,818	10,382	1,436
Assessor	10,652	11,652	11,476	176
Building and grounds	38,479	34,579	27,078	7,501
Cemeteries	34,374	44,374	44,016	358
Public safety	114,194	92,194	76,193	16,001
Plan and zoning	4,198	4,198	3,723	475
Utility - city wide	16,000	17,400	16,014	1,386
Insurance	19,500	20,100	19,915	185
Capital outlay		109,478	115,006	(5,528)
TOTAL EXPENDITURES	\$ 288,157	\$ 387,635	\$ 360,186	\$ 27,449
REVENUES OVER (UNDER) EXPENDITURES	\$ 13,599	\$ (85,879)	\$ 21,983	\$ 107,862
OTHER FINANCING SOURCES (USES)				
Operating transfers (out)	\$ (59,500)	\$ (62,650)	\$ (42,205)	\$ 20,445
Loan proceeds			100,000	100,000
Payment on note		(6,850)	(6,850)	
TOTAL OTHER FINANCING SOURCES (USES)	\$ (59,500)	\$ (69,500)	\$ 50,945	\$ 120,445
NET CHANGE IN FUND BALANCE	\$ (45,901)	\$ (155,379)	\$ 72,928	\$ 228,307
FUND BALANCE - BEGINNING OF YEAR	287,241	287,241	287,241	
FUND BALANCE - END OF YEAR	\$ 241,340	\$ 131,862	\$ 360,169	\$ 228,307

CITY OF READING, MICHIGAN

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE -
MAJOR SPECIAL REVENUE FUND - MAJOR STREET

YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	FINAL BUDGET TO ACTUAL
REVENUES				
State revenues	\$ 58,800	\$ 58,800	\$ 59,371	\$ 571
Interest income	100	100	349	249
TOTAL REVENUES	\$ 58,900	\$ 58,900	\$ 59,720	\$ 820
EXPENDITURES				
Wages and benefits	\$ 19,008	\$ 19,008	\$ 21,704	\$ (2,696)
Operating supplies	6,723	6,723	6,121	602
Contractual services	15,000	15,000	1,462	13,538
Tree trimming	3,500	3,500	1,550	1,950
Equipment rental	12,000	12,000	17,588	(5,588)
TOTAL EXPENDITURES	\$ 56,231	\$ 56,231	\$ 48,425	\$ 7,806
REVENUES OVER (UNDER) EXPENDITURES	\$ 2,669	\$ 2,669	\$ 11,295	\$ 8,626
OTHER FINANCING SOURCES (USES)				
Operating transfers (out)	\$ (14,000)	\$ (14,000)	\$ (11,000)	\$ 3,000
NET CHANGE IN FUND BALANCE	\$ (11,331)	\$ (11,331)	\$ 295	\$ 11,626
FUND BALANCE - BEGINNING OF YEAR	47,486	47,486	47,486	
FUND BALANCE - END OF YEAR	\$ 36,155	\$ 36,155	\$ 47,781	\$ 11,626

CITY OF READING, MICHIGAN
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE -
MAJOR SPECIAL REVENUE FUND - LOCAL STREET
YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	FINAL TO ACTUAL
REVENUES				
State revenues	\$ 19,500	\$ 19,500	\$ 20,389	\$ 889
EXPENDITURES				
Wages and benefits	\$ 21,088	\$ 21,088	\$ 19,383	\$ 1,705
Operating supplies	4,417	4,417	5,503	(1,086)
Contractual services	10,000	20,125	17,776	2,349
Tree trimming	3,500	3,500	2,050	1,450
Equipment rental	10,000	17,500	16,357	1,143
TOTAL EXPENDITURES	\$ 49,005	\$ 66,630	\$ 61,069	\$ 5,561
REVENUES OVER (UNDER) EXPENDITURES	\$ (29,505)	\$ (47,130)	\$ (40,680)	\$ 6,450
OTHER FINANCING SOURCES (USES)				
Operating transfers (out)	\$ (3,000)	\$ (3,000)	\$	\$ 3,000
Operating transfers in	30,500	40,500	40,500	
TOTAL OTHER FINANCING SOURCES (USES)	\$ 27,500	\$ 37,500	\$ 40,500	\$ 3,000
NET CHANGE IN FUND BALANCE	\$ (2,005)	\$ (9,630)	\$ (180)	\$ 9,450
FUND BALANCE - BEGINNING OF YEAR	7,153	7,153	7,153	
FUND BALANCE - END OF YEAR	\$ 5,148	\$ (2,477)	\$ 6,973	\$ 9,450

CITY OF READING, MICHIGAN

REQUIRED SUPPLEMENTAL INFORMATION

RETIREMENT SYSTEM REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS

MICHIGAN MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

JUNE 30, 2005

AS OF DEC. 31	(1) NET ASSETS AVAILABLE FOR BENEFITS	(2) PENSION BENEFIT OBLIGATION	(3) PERCENT FUNDED (1)/(2)	(4) UNFUNDED (OVER- FUNDED) PBO (2)-(1)	(5) ANNUAL COVERED PAYROLL	(6) UNFUNDED (OVER- FUNDED) PBO AS A PERCENT OF COVERED PAYROLL (4)/(5)
1989		24,996	%	24,966	59,525	42%
1990	12,374	31,632	39%	19,258	53,631	36%
1991	18,031	35,436	51%	17,405	53,489	33%
1992	17,130	38,152	45%	21,022	77,184	27%
1993	19,238	56,804	34%	37,566	69,947	54%
1994	24,898	69,154	36%	44,256	84,192	53%
1995	33,511	69,772	48%	36,261	79,990	45%
1996	42,985	82,936	52%	39,951	109,831	36%
1997	55,055	93,334	59%	38,279	120,575	32%
1998	67,608	124,465	54%	56,857	103,460	55%
1999	84,239	118,571	71%	34,332	140,079	25%
2000	100,971	147,394	69%	46,423	185,746	25%
2001	119,129	158,685	75%	39,556	185,568	21%
2002	135,413	169,367	80%	33,954	217,422	16%
2003	156,213	173,147	90%	16,934	163,171	10%
2004	173,376	196,854	88%	23,478	141,888	17%

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the retirement system's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the retirement system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

OTHER SUPPLEMENTAL INFORMATION

CITY OF READING, MICHIGAN
OTHER SUPPLEMENTAL INFORMATION
TAX INCREMENT FINANCE AUTHORITY
BALANCE SHEET - GOVERNMENTAL FUND

JUNE 30, 2005

ASSETS
Cash

\$ 224,901

LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payable

\$ 14,926

Fund Balance:

Unreserved, undesignated

\$ 209,975

TOTAL LIABILITIES AND FUND BALANCE

\$ 224,901

CITY OF READING, MICHIGAN
OTHER SUPPLEMENTAL INFORMATION
TAX INCREMENT FINANCE AUTHORITY
RECONCILIATION OF THE TAX INCREMENT FINANCE AUTHORITY'S
GOVERNMENTAL FUND BALANCE SHEET WITH THE STATEMENT OF NET ASSETS

YEAR ENDED JUNE 30, 2005

TIFA FUND BALANCE \$ 209,975

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and
are not reported in the funds

The cost of the capital assets is	\$	17,860	
Accumulated depreciation is		<u>(4,324)</u>	13,536

Receivables are expected to be collected in future years and are not available to pay for current year expenditures	597,172
--	---------

Long-term liabilities are not due and payable in the current period and are not reported in the funds

Bank notes	(596,319)
------------	-----------

Investments in land held for sale are not current resources and therefore are not available to pay for current year expenditures	<u>328,445</u>
---	----------------

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 552,809</u></u>
---------------------------------------	--------------------------

CITY OF READING, MICHIGAN

OTHER SUPPLEMENTAL INFORMATION

TAX INCREMENT FINANCE AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND

YEAR ENDED JUNE 30, 2005

REVENUE	
Taxes	\$ 102,112
Interest	29,427
Lease revenue	1,125
Other	8,500
	<hr/>
TOTAL REVENUES	\$ 141,164
	<hr/>
EXPENDITURES	
Wages	\$ 29,630
Contracted services	18,691
Office supplies and maintenance	552
Legal and professional	2,800
Memberships and dues	5,314
Utilities	1,114
Community promotion	2,438
Land improvements	6,160
Capital outlay	10,950
Contribution to City of Reading	11,600
Miscellaneous	2,354
Debt service:	
Principal	187,760
Interest	22,219
	<hr/>
TOTAL EXPENDITURES	\$ 301,582
	<hr/>
REVENUES (UNDER) EXPENDITURES	\$ (160,418)
	<hr/>
OTHER FINANCING SOURCES (USES)	
Collections on land contract receivables	\$ 191,590
	<hr/>
NET CHANGE IN FUND BALANCE	\$ 31,172
	<hr/>
FUND BALANCE - BEGINNING OF YEAR	178,803
	<hr/>
FUND BALANCE - END OF YEAR	\$ 209,975
	<hr/>

CITY OF READING, MICHIGAN

OTHER SUPPLEMENTAL INFORMATION

TAX INCREMENT FINANCE AUTHORITY

RECONCILIATION OF THE TAX INCREMENT FINANCE AUTHORITY'S STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2005

NET CHANGE IN FUND BALANCE - TOTAL TIFA FUNDS

\$ 31,172

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures, and in the statement of activities these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (1,099)
Capital outlay	<u>10,950</u>

Investment in land is an expenditure in governmental funds, but not in the statement of activities (it increases the investment)

9,851

6,160

Cash collection on land contract receivables are revenues in the fund financial statements, but not in the statement of activities (where it reduces long-term receivables)

(186,907)

Repayment of bank notes is an expenditure in the fund financial statements, but not in the statement of activities (where it reduces long-term debt)

187,760

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 48,036

OTHER REPORTS



Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

184 West Carleton Road

Hillsdale, Michigan 49242

Telephone: 517/439-9331

FAX: 517/439-1894

CITY OF READING, MICHIGAN

GAO GOVERNMENT AUDITING STANDARDS REPORT

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the City Council
City of Reading, Michigan
Reading, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Reading, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City of Reading, Michigan's basic financial statements and have issued our report thereon dated July 29, 2005. The opinion on the City's governmental activities financial statements was qualified because the City included in those statements its investment in Reading Community Fire Department, a joint venture between the City of Reading, Michigan and Reading Township, based on financial statements that have not been audited, and we were not engaged to audit the joint venture financial statements as part of our audit of the City's basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Reading, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Reading, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over financial reporting that we have reported to management of City of Reading, Michigan, in a separate letter dated July 29, 2005.

This report is intended for the information of the City Council, management, and the State of Michigan. However, this report is a matter of public record and its distribution is not limited.

Osbourne, March, Condon & Co P.C.

Certified Public Accountants

Hillsdale, Michigan
July 29, 2005



Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

184 West Carleton Road

Hillsdale, Michigan 49242

Telephone: 517/439-9331

FAX: 517/439-1894

CITY OF READING, MICHIGAN
COMMUNICATION TO CITY COUNCIL

July 29, 2005

To City Council
City of Reading, Michigan
Reading, Michigan

We have audited the financial statements of City of Reading, Michigan, for the year ended June 30, 2005, and have issued our report thereon dated July 29, 2005. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 27, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal controls of the City of Reading, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application as necessary. The significant accounting policies used by City of Reading, Michigan, are described in Note 1 to the financial statements.

City management implemented the following Governmental Accounting Standards Board pronouncements as required in the industry of local units of government:

Statements

No. 40 – Deposit and Investment Risk Disclosures

We noted no transactions entered into by City of Reading, Michigan, during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of the significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the liability of compensated absences is based on expected payout upon employee death or retirement. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Reading, Michigan's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City of Reading, Michigan, either individually or in the aggregate, indicate matters that could have a significant effect on the City of Reading, Michigan's financial reporting process.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Reading, Michigan's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

7. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the City Council and management. It is not intended to be and should not be used by anyone other than these specified parties.

Osbourne, March, Condon & Co P.C.

Certified Public Accountants



Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

184 West Carleton Road

Hillsdale, Michigan 49242

Telephone: 517/439-9331

FAX: 517/439-1894

CITY OF READING, MICHIGAN
AUDITOR'S COMMENTS AND RECOMMENDATIONS

July 29, 2005

City Council
City of Reading, Michigan
Reading, MI 49274

In planning and performing our audit of the financial statements of City of Reading, Michigan for the year ended June 30, 2005, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated July 29, 2005, on the financial statements of City of Reading, Michigan.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with the City's management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Osbourne, March, Condon & Co P.C.

Certified Public Accountants

INVENTORY

Supply parts that make up the total dollar amount recorded in inventory will change during fiscal periods because of supply parts used in repairs and the purchase of new supply parts to replenish what was used. Currently there is not a communication device between the DPW Department and the Treasurer's office to make changes to the inventory balance recorded in the City's financial books for purchases and uses of supply parts.

Recommendation

We recommend that the City (1) develop a form that reports part description, quantity, cost and extended value of items used out of the inventory balance to be completed by the DPW Department and (2) the DPW Department indicate on invoices or purchase receipts the supply parts that replenish the inventory balance and those that are to be directly posted to expense. These documents should then be forward to the Treasurer's office to be used in adjusting the City's financial books.

A less formal system can be used if it accomplishes the objectives of correctly adjusting the inventory balance for increases and decreases.

DPW FUEL TANK

During our audit we noted that the DPW does not reconcile the amount of fuel in its tank with the fuel log that it maintains. In other words at a given point in time the total gallons available as reported in the log book should agree with the total physical gallons in the fuel tank.

Recommendation

In light of recent economic conditions that have pushed the price of oil up as high as \$70 per barrel we want to caution the City of the potential of vendors delivering less gallons of fuel than the amount invoiced to the City and then selling the undelivered gallons to other parties.

Therefore, we recommend that the City consider maintaining the DPW log on a perpetual basis and measure the fuel tank after fuel deliveries and compare the physical gallons in the tank with the log book to ensure that the City is paying for actual gallons received.

FISCAL POLICIES AND PROCEDURES

During our audit it came to our attention that certain policies and procedures have not been formally adopted by Council and they are as follows:

1. Purchasing and disbursement policy
2. Investments and deposit policy
3. Conflict of interest policy

Although the City Charter addresses some of these fiscal issues they are only stated in general terms.

Recommendation

We recommend the City develop and adopt the above mentioned policies to achieve fiscal objective unique to the City. These policies should be specific in their objective; identifying dollar limits, personnel authorized to approve, required board approval, public acts and statute (e.g., investments and deposits - Public Act 196 of 1997), who must abstain from voting on motions with respect to conflict of interest, approved vendors, etc. We would encourage City Council to consider resolving these issues; perhaps in a workshop forum. The policies, as well as the City Charter, should be retained in a Fiscal Policy Manual.

FISCAL POLICIES AND PROCEDURES (CONCLUDED)

Recommendation (Concluded)

Annually, City employees, and any new council members, should be provided the manual to read. Upon completion of reading the policies the individual(s) should sign and date an annual policy renewal form stating they have read the policies. The form should be retained in their personnel file.

A reminder that City management, not the auditor, is responsible for designing and implementing effective policies and procedures for preventing, deterring, and detecting fraud. Therefore, we encourage City management and council members to review the City's operating activities and processes annually and identify weaknesses that may exist in policy in procedures. Weaknesses identified should be mitigated by developing new policies or modifying existing ones.

COUNCIL MEMBERS TRAINING

The City's Charter does not require new council members to obtain training for their responsibilities in governing the City's fiscal operations. However, there are many legislative and procedural requirements that are inherent in local units of government and with out formal training new council members may not be aware of their legal responsibilities that they are held accountable to carryout when elected or appointed to their position.

Recommendation

We recommend the City Council consider formulating a policy requiring new council members to obtain training through the Michigan Municipal League or other venue. The type of training could be a one to two day seminar or a multiple of other short-time interval courses. We believe that such education is imperative and an added value to the City's operations and community.

FIVE YEAR WATER ANAYLSIS

The Water Fund continues to report a decline in service charges as demonstrated in the table below.

	WATER FUND				
	YEAR ENDED JUNE 30				
	2005	2004	2003	2002	2001
CHARGES FOR SERVICES	\$ 187,275	\$ 189,860	\$ 198,785	\$ 204,043	\$ 217,638
OPERATING EXPENSES	187,453	173,180	201,418	135,857	143,708
OPERATING INCOME	\$ (178)	\$ 6,680	\$ (2,633)	\$ 68,186	\$ 73,930
NON-OPERATING REVENUES AND (EXPENSES)	(38,561)	(53,157)	(52,362)	(51,115)	(36,847)
INCOME (LOSS) BEFORE OPERATING TRANSFERS	\$ (38,739)	\$ (36,477)	\$ (54,995)	\$ 17,071	\$ 49,063
OPERATING TRANSFERS		(15,292)	(8,848)	(17,492)	(4,889)
NET INCOME (LOSS)	<u>\$ (38,739)</u>	<u>\$ (51,769)</u>	<u>\$ (63,843)</u>	<u>\$ (421)</u>	<u>\$ 23,586</u>